1.0 Workers Compensation Fund of Utah

Summary

The Workers Compensation Fund of Utah (the Company) provides employers with low cost workers' compensation and employer liability insurance. All funding comes from premiums paid by policyholders. The Company receives no funding from the State except for premiums paid by the State as a policyholder. Premiums paid by the State accounted for $4,908,000 or 4.3% of total 1997 premium. Although this analysis concentrates on the administrative portion of the Company's budget, the success of the Company in meeting its statutorily created objectives is better evidenced by a review of the other key operating statistics included herein.

The Legislature established the workers' compensation system in 1917. Employers have the option of obtaining workers' compensation coverage through the Company or another private carrier or self insuring (with the approval of the Industrial Commission). The Company insures over 29,000 Utah employers.

The Legislature has designated the Company as an independent, quasi-public corporation. In connection with this designation, the budgetary control was shifted from the legislature to the Company's Board of Directors. The budget presented herein is for Legislative review and not for approval. The Company is a component unit of the State of Utah and is accounted for as a proprietary fund. However, statute clearly indicates that "the State is not liable for the expenses, liabilities, or debts of the Workers' Compensation Fund, and may not use any assets of the Injury Fund for any purpose." [UCA 31A-33-105(2)]

Financial Summary

	CY 1997 Estimated	CY 1998 Budget	Increase
Workers Compensation	$32,903,000	$34,199,000	$1,296,000
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	323	341	18
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3.0 Programs: Workers Compensation Fund of Utah - Administration

Organizational Summary

The Workers Compensation Fund of Utah is organized as follows:

Administration includes underwriting, accounting, financial analysis, budgeting, investments, human resources, customer service, loss prevention, premium specialists (policyholder audits) and information systems.

Operations includes claims administration, medical management and special investigations.

Programs

Marketing includes oversight of independent agents, the Company's regional offices, third-party administration of self-funded entities as well as internal marketing representatives.

Legal Services adjudicates cases before the Labor Commission and oversees recoveries and reimbursements from third parties as well as amounts due from policyholders.

Financial Summary

	CY 96 Actual	CY 97 Projected	CY 98 Budget	Difference
Personal Services	$14,934,000	$17,279,000	$19,769,000	$2,488,000
Data Processing	2,969,000	3,665,000	3,781,000	116,000
Unallocated Loss Adjstmt	3,000,000	3,000,000	3,000,000	
Agent Commission	1,586,000	2,100,000	2,584,000	484,000
Professional services	1,943,000	2,331,000	1,939,000	(392,000)
Other	3,486,000	4,528,000	3,126,000	(1,402,000)
	$27,918,000	$32,903,000	$34,199,000	$1,294,000
		17.8%	3.9%	
	278	323	341	18

Critical Issue

Key objectives of the Company are to efficiently adjudicate claims and promote workplace safety, enabling appropriate care to injured workers while minimizing the cost to employers. The Company has been successful in achieving these objectives by investing in quality systems and personnel. These investments produce leveraged savings in claims expenses and have enabled the Company to reduce premiums paid by employers.

The significance of this leverage is apparent when viewing the Company's overall expense picture. While budgeted 1998 administrative expenses have increased $1,296,000 from projected 1997, net benefits expense is projected to decrease by $9,120,000, or 11.8%. In 1997, administrative expenses increased by $4,985,000 in comparison to 1996, while net benefits expense decreased by $10,355,000.

3.0 Programs: Workers Compensation Fund of Utah

Performance Measures

The following tables show key performance measures used by Company management in evaluating Company performance:

Year	Number of Claims Filed	Number of Open Claims	Claims Payments ($ in 000s)	Average Premium Rate Increase (Decrease)
1992	41,767	20,218	83,897	17.9%
1993	38,157	15,501	78,362	19.5%
1994	35,139	12,447	75,494	8.4%
1995	31,165	9,870	63,339	(8.2%)
1996	30,874	10,075	59,658	(10.1%)
1997	29,822	9,627	56,000	(11.9%)
1998	29,500	9,600	56,500	(16.3%)

* Projected

Company Initiatives

The Company has implemented the following initiatives aimed at lowering claims costs and premiums, and providing improved service to policyholders and injured workers:

Increasing the number and expertise of safety/loss control professionals to make such services readily available to policyholders.

Establishing a medical case management and utilization review group with registered nurses to oversee medical treatment.

Contracting with hospital and physician groups to provide medical care at discounted rates.

Assist employers in establishing drug and alcohol testing programs.

Utilizing vocational rehabilitation specialists to assist injured workers in returning to work.

Reducing the caseload per adjuster to facilitate more effective claims management. Adjuster caseload has decreased from about 300 in 1992 to approximately 100 in 1997.

Utilizing sophisticated software to track the effectiveness of various physicians and treatments.

Aggressively investigating and assisting in the prosecution of policyholder, claimant and provider fraud. The Company's special investigations unit has saved nearly $15 million since its inception four years ago.

Branch offices have been opened in Ogden and St. George to increase service in outlying areas.

The Company has developed new products, services and delivery methods to better meet the needs of its customers.

Business Practices

The Company operates as a non-profit, mutual insurance company. Premium rates for the Company, and all other private carriers, are approved by Utah's Insurance Department.

3.0 Programs: Workers Compensation Fund of Utah

Discounts & Rebates

Programs that provide adjustments to standard rates may be granted by carriers with approval of the Utah Insurance Department. The Company offers a variety of adjustment programs that are dependent on historical or projected claims data. The Company may also return excess income to the policyholders in the form of dividends.

History

Originally, the Workers Compensation Fund of Utah operated as a division of the Department of Finance. In 1981, the Legislature reorganized the Fund under the Department of Administrative Services. In 1986, the Legislature designated the Fund as an enterprise fund and shifted the oversight of expenditures from the Legislature to the Governor. In 1988, the Legislature made the Fund independent from direct State oversight and established a Board of Directors and a Chief Executive Officer. The Governor appoints the seven-member board; current board members are listed below.

Current Board

Mel Green -	Chairman, Founder and partner of Galbraith and Green (retired), Chairman, Creative Color
Mark Heugly -	Senior Vice President, Zions Bank
August Glissmeyer, Jr.-	Managing Partner, Deloitte & Touche (retired)
Raylene Ireland -	Executive Director of Department of Administrative Services
Robert Myrick -	President, Mountainwest Financial Corporation
Howard E. Dransfield -	Senior Executive, Mobil Corporation (retired)
Lane A. Summerhays -	President and Chief Executive Officer of Workers Compensation Fund of Utah

Statement of Operations

Premium revenue has declined in 1995, 1996, 1997 and 1998 as the benefit of overall cost reductions is passed on to policyholders. The Company has maintained its market share of approximately 53% of the Utah insured market over the past 5 years.

The Company pays premium taxes to the State in accordance with Utah Code Annotated 31A-33-114 and 59-9-101. Premium taxes for 1997 and 1998 (projected) are $9,221,000 and $8,788,000, respectively.

Premium revenue is used to pay benefit expenses and administrative expenses. Benefit expenses have declined $61,635,000 or 47% from 1994 to 1998 due to the Company's successful loss control and medical management efforts.

Administrative expenses have increased as mentioned above to fund the Company's loss control and medical management programs.

3.0 Programs: Workers Compensation Fund of Utah

The success of the Company's programs has enabled the strengthening of its investment portfolio and increased the investment income. Investment income is used to offset expenses and enable further premium reductions. The strengthening is also evidenced by the increase in policyholders' equity, which has grown approximately $139,000,000 from 1993.

The Company returns excess premiums to policyholders in the form of dividends. Due to the success of the Company's cost saving programs, the Company paid a dividend for 1996 of $17.5 million to policyholders in early 1997. The 1997 dividend, to be paid in 1998, will be approximately $15 million. The 1997 dividend is subject to approval by the Company's Board of Directors.

Budget Authority Ceded

The 1998 budget for the Company was approved by the Board of Directors on November 12, 1997, and is presented to the Governor and Legislature for information purposes. The 1990 Legislature allowed the Fund to report its operating results on a calendar year rather than the State's fiscal year.